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AUG 9 1961

ANNUAL REPORT

1960

New Surpass

Petrochemicals Limited

Directors

DAVID T. WINCHELL	-	-	-	-	-	-	-	Toronto, Ontario
LUTHER F. WINCHELL	-	-	-	-	-	-	-	Toronto, Ontario
WALTER H. IRWIN	-	-	-	-	-	-	-	Toronto, Ontario
FRED W. EVANS	-	-	-	-	-	-	-	Toronto, Ontario
GEORGE D. PATTISON	-	-	-	-	-	-	-	Toronto, Ontario
R. D. BELL	-	-	-	-	-	-	-	Toronto, Ontario
C. A. WELTMAN	-	-	-	-	-	-	-	Niagara Falls, N.Y.

Officers

FRED W. EVANS	-	-	-	-	President and General Manager	
WALTER H. IRWIN	-	-	-	-	-	Vice-President
ELLIS A. CLARKE, C.A.	-	-	-	-	-	Secretary-Treasurer

Transfer Agents and Registrars

PRUDENTIAL TRUST COMPANY LIMITED,
366 Bay Street,
Toronto, Ontario.

Auditors

MESSRS. HENRY BARBER, MAPP & MAPP,
111 Richmond Street West,
Toronto, Ontario.

Bankers

ROYAL BANK OF CANADA,
Bay and Temperance Streets,
Toronto, Ontario.

Solicitors

MANLEY, GRANT & ARMSTRONG,
366 Bay Street,
Toronto, Ontario.

Head Office

Suite 1402,
80 Richmond Street West,
Toronto, Ontario.

Plant

36 Upton Road,
Scarborough, Ontario.



PRESIDENT'S REPORT

TO THE SHAREHOLDER:

Your Board of Directors and Management are pleased to submit herewith, the Statements of Financial Condition and Operations for the fiscal year ended December 31, 1960 together with the Auditors' Report thereon.

I should like to take this opportunity to comment on the company's progress and critically appraise its future. As the attached statements indicate, the company earned operating profit of \$11,279.00 in 1960. This may be compared with a loss of \$107,866.00 on a similar accounting basis in 1959. Directly responsible for this gratifying improvement, was an increase in sales between 1959 and 1960 of approximately 100%. At the level of sales achieved in 1960 it is possible for the company to sustain itself without further borrowing and to slowly increase its working capital.

After allowance for depreciation, however, there was a net loss of \$40,336.00 as compared with approximately \$160,000.00 in 1959. This net loss after depreciation means that earnings are not being accumulated at a rate sufficient to replace the plant and equipment at the end of its anticipated life. Needless to say, operation at the present level precludes the possibility of any dividends. You will note in the Statement of Deficit a charge of \$127,285.94 for depreciation of equipment applicable to prior years, which was not previously provided pending determination of the life of the equipment.

It is estimated by your Management that to achieve break-even operation after allowance for depreciation an additional increase of \$100,000.00 or 16% in sales is necessary. Our optimistic forecast indicated that we may accomplish this in 1961. Further increases in sales beyond this break-even point with our present products are going to be increasingly difficult to obtain as we will have reached a fairly high degree of saturation in the Canadian market. The U.S. market, in which your company already enjoys substantial business, though large, is limited for Surpass by competition as well as by restrictive factors such as duty and freight rates. Over the long pull, then, we look for modest annual improvements in sales of our present products of some 5 to 10% with a gradual enhancement of the company's financial position. Major growth from now on can only come from a diversification program involving new products and new investment.

Your Management recognizes that such a program of slowly increasing sales with small earnings and reserves is not basically sound. It places the company in a position of extreme vulnerability to such possibilities as product obsolescence and loss of business through



the various factors of competition. The need for product diversification and expansion into new fields to insure earnings stability has been emphasized repeatedly in past statements. Considerable effort has been expended in the investigation of possible avenues of diversification and a number of attractive projects have been uncovered. The obstacle to putting these projects into commercial practice has been and continues to be the unavailability of risk investment capital. Our endeavours in this direction will continue, however, and it is hoped that a broader base of operations can be achieved before obsolescence or other adverse factors become effective.

Our program of cost reduction through process improvement has continued and substantial savings have been made. This area of research still remains a fertile field and it is our intention to continue these efforts. A by-product of process research is very often product quality improvement. We recognize the importance of this to our reputation in the field and can report a growing recognition and acceptance of your company's dependability by its customers.

It is somewhat disheartening to report that there has recently developed an acute oversupply of petroleum sulfonates in the world markets. This has resulted in a price depression which has forced us to concede price reductions in some major products. Whether or not this situation will become chronic is not ascertainable at the present time. Consequently, its effect on 1961 earnings cannot be presently predicted. You may be assured, however, that every effort possible will be made by your Management to minimize the adverse effects.

We wish to note with deep regret the resignation early this year as president and the subsequent untimely death of Mr. George A. McCartney. It was largely through Mr. McCartney's untiring and unselfish efforts that this company was able to survive in its critical formative years.

In summary, it is most gratifying to report the very substantial progress your company has made in the past year. My prediction for the future of slowly improving sales and earnings provided there is no new investment, while perhaps disappointing is, I believe, realistic. It represents the best basis I can presently give to guide you, as shareholders, in your future decisions with regard to your ownership of shares in this company.

Respectfully submitted,

F. W. EVANS,

President.

Toronto,
June 7, 1961.



New Surpass

Petrochemicals Limited

INCORPORATED UNDER
THE LAWS OF ONTARIO

BALANCE SHEET

DECEMBER 31, 1960

ASSETS

CURRENT ASSETS:

Cash	\$ 13,758.99	
Accounts receivable, trade	46,178.18	
Advances to employees	184.00	
Inventories, at lower of cost or market	71,357.50	
Prepaid expenses	8,589.80	\$140,068.47

OTHER ASSET:

Second mortgage receivable		5,211.72
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FIXED ASSETS — at cost:

Plant and equipment	860,257.29	
Less Accumulated depreciation	178,901.78	681,355.51

ORGANIZATION EXPENSE		2,175.40
		<u>\$828,811.10</u>

LIABILITIES

CURRENT LIABILITIES:

Bank loan, secured	\$ 25,000.00	
Accounts payable and accrued charges	85,526.18	\$110,526.18

ADVANCE FROM ASSOCIATED COMPANY		169,006.98
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SHAREHOLDERS' EQUITY:

Capital stock:		
Authorized, 700,000 shares of no par value		
Issued, 614,848 shares	1,306,159.00	
Less Deficit	756,881.06	549,277.94
		<u>\$828,811.10</u>

NOTE:

An option is outstanding to purchase 30,000 shares of the company's capital stock at 75¢ per share, expiring July 1, 1962.

Approved on behalf of the Board:

F. W. EVANS, Director.

W. H. IRWIN, Director.



STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1960

SALES	\$625,902.36
Cost of goods sold, laboratory, selling and administrative expenses	614,622.61
Operating profit before depreciation	11,279.75
Depreciation	51,615.84
LOSS FOR YEAR	<u>\$ 40,336.09</u>

STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1960

Deficit at beginning of year	\$584,759.03
ADD:	
Loss for year	40,336.09
Prior years' charges:	
Depreciation	\$127,285.94
Other expenses	4,500.00
DEFICIT AT END OF YEAR	<u>\$756,881.06</u>

AUDITORS' REPORT


To the Shareholders of
New Surpass Petrochemicals Limited:

We have examined the balance sheet of New Surpass Petrochemicals Limited as at December 31, 1960 and the statements of income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statements of income and deficit present fairly the financial position of the company as at December 31, 1960 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles.

Toronto, Canada,
June 6, 1961.

HENRY BARBER, MAPP & MAPP,
Chartered Accountants.



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NEW SURPASS PETROCHEMICALS LIMITED

Interim Report

FOR THE SIX MONTHS' PERIOD ENDED ^{SEP 5} JUNE 30, 1960

Dear Shareholder:

We take pleasure in submitting to the Shareholders an Interim Report of the operations of the Company for the six months' period ended June 30, 1960.

The Company realized a net profit of \$18,108.54 for the period as compared with a net loss of \$107,866.25 for the whole of the year 1959. Sales continued to grow month by month, and the month of June recorded the largest volume of sales in the Company's history. While we are regularly striving to reduce overheads, they are a relatively fixed amount, and as sales volume grows a larger percentage of the income remains as net profit.

It is anticipated that sales for the second half of the year should be up slightly from the first six months and could be up substantially if new sources of raw material now under test prove satisfactory. The plant is capable of producing at a considerably higher rate if satisfactory raw material can be obtained. Earnings are expected to be higher in the second half as improvements in processing and plant efficiency increase the yield of saleable material from the same amount of raw materials.

Considerable market research and laboratory work toward new products is now being completed and, while a final decision has not been made, a new product now under study would seem to have the potential markets and economics to warrant our proceeding with production plans. Some new equipment would be required, but this would not involve any large capital outlay and at the same time the equipment would be capable of efficiently producing a number of other fine chemicals now being studied.

Working capital improved during the period from \$5,159.68 at December 31, 1959 to \$48,059.81. This was due partly to additional borrowings of approximately \$25,000 from Chemalloy Minerals Limited.

Due to the rapid turnover of cash a large working capital position is not required and subject to retaining sufficient funds to pay accounts when due, and for new equipment as required, a program of repaying Chemalloy has been instituted to clear outstanding indebtedness as quickly as possible.

The Management is very pleased to have been able to report that after the long period of becoming established, the Company is now operating at a profit and we look forward to being able to report further impressive growth in sales and earnings for the balance of the year.

On Behalf of the Board of Directors,

NEW SURPASS PETROCHEMICALS LIMITED,
GEORGE A. MCCARTNEY, *President.*

